

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 CIAE-00 PM-05 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-08 FRB-03 XMB-02

OPIC-03 LAB-04 SIL-01 OMB-01 STR-05 CEA-01 NEA-10

IO-13 AGRE-00 /113 W

-----027826 020516Z /11

R 020255Z DEC 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8626

INFO AMEMBASSY WELLINGTON

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USADB

FOR NAC AGENCIES

E.O. 11652: N/A

TAGS: EAID, EFIN, WAS

SUBJECT: PROPOSED ADB LOAN FOR COCONUT OIL MILL PROJECT -

WESTERN SAMAO

SUMMARY: ADB MANAGEMENT PROPOSES \$2.250 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO WESTERN SAMOA TO FINANCE
FOREX COST OF CONSTRUCTION OF COCONUT OIL MILL PROJECT.

COPRA PRODUCTION IS SINGLE MOST IMPORTANT CROP FOR WESTERN
SAMOA, HOWEVER PRODUCTION HAS STAGNATED AROUND 14 TO 18,000
M.T. PER ANNUM. PROPOSED PROJECT FOR PRODUCING OIL AND
COPRA MEAL WILL INCREASE COPRA OUTPUT TO 26,000 M.T. OF
WHICH ALMOST TWO-THIRDS WILL BE SOLD AS CRUDE OIL AND ONE-
THIRD AS COPRA MEAL PELLETS FOR ANIMAL FEED. ABOUT 20 PERCENT
OF COUNTRY'S OUTPUT IS FROM WESTERN SAMAO TRUST ESTATES
CORPORATION (WSTEC) AND 80 PERCENT FROM SMALL LANDHOLDERS.
WESTERN SAMOA'S FOREX EARNINGS WOULD INCREASE BY \$1.76

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MILLION ANNUALLY AS RESULT OF PROPOSED PROJECT, UP BY ALMOST
25 PERCENT. FINANCIAL INTERNAL RATE OF RETURN IS ESTIMATED
AT 16.3 PERCENT AND ECONOMIC INTERNAL RATE OF RETURN IS
CALCULATED AT ABOUT 17.4 PERCENT. INTERNATIONAL MARKET PRICES
FOR COCONUT PRODUCTS HAVE FLUCTUATED WIDELY IN THE PAST,
HOWEVER, SOME STABILITY HAS BEEN ACHIEVED AT A RELATIVELY
LOW LEVEL. BASED ON MODEST PRICE LEVELS, MILL'S OVERALL

FINANCIAL PERFORMANCE IS PROJECTED TO BE SATISFACTORY.
USADB SUPPORTS PROPOSED LOAN AND RECOMMENDS FAVORABLE NAC
ACTION. END SUMMARY.

1. ADB DOC. R131-77 WITH ATTACHMENTS DESCRIBING PROPOSED
LOAN POUCHED ADDRESSEES NOVEMBER 23. BOARD CONSIDERATION
SCHEDULED DECEMBER 15, 1977.

2. ADB MANAGEMENT PROPOSING \$2.250 MILLION LAON FOR SPECIAL
FUND RESOURCES TO WESTERN SAMOA TO CONSTRUCT, ON A TURNKEY
BASIS, A MODERN CODONUT OIL MILL COMPLETE WITH ALL ANCILLARY
FACILITIES CAPABLE OF PROCESSING A MAXIMUM OF ABOUT 73 M.T.
OF COPRA A DAY. PROCEEDS WILL FINANCE FOREX COST OF MILL
MACHINERY, INSTALLATION AND CONSULTANTS. PROPOSED TERMS
ARE 40 YEAR AMORTIZATION, 10 YEAR GRACE PERIOD AND SERVICE
CHARGE OF ONE PERCENT PER ANNUM. FUNDS ARE TO BE RELENT
TO EXECUTING AGENCY UNDER A SUBSIDIARY LOAN AGREEMENT FOR 15
YEAR PERIOD, 5 YEAR GRACE AND INTEREST RATE OF 8.3 PERCENT
PER ANNUM. BORROWER IS GOVERNMENT OF WESTERN SAMOA AND
EXECUTING AGENCY WILL BE SAMOA COCONUT PRODUCTS LIMITED (SCPL).

3. WESTERN SAMO HAS ESTIMATED CROPPING POTENTIAL OF ABOUT
139,000 HA. WITH ADEQUATE RAINFALL FOR A VARIETY OF TROPICAL
FRUITS. AN ESTIMATED 48,000 HA. ARE CURRENTLY IN COCONUT
TREE PRODUCTION, THUS ACCOUNTING FOR ITS MAJOR CROP AND MOST
IMPORTANT FOREX EARNER. ABOUT 81 PERCENT OF LAND IN WESTERN
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SAMAO IS HELD BY SAMOAN OWNERS WHO BY TRADITION CANNOT BE
ALIENATED FROM THEIR LAND. GOVERNMENT OWNS 11 PERCENT AND
WSTEC LAND HOLDINGS ARE 4 PERCENT. LESS THAN 4 PERCENT OF
LAND IS HELD ON FREEHOLD BASIS, A SYSTEM THAT ALLOWS FREE
DISPOSITION OF LAND BY OWNERS. INDUSTRIAL SECTOR IS SMALL,
BUT INCREASING IN IMPORTANCE WITH ESTABLISHMENT OF SOME
IMPORT SUBSTITUTIONS ENTERPRISES. AN INDUSTRIAL FREE ZONE
ACT WAS PASSED IN 1974 AS AN INCENTIVE TO INCREASE
INDUSTRIAL ACTIVITY. DESPITE ITS EFFORTS TO RESUSCITATE
EXPORTS WESTERN SAMOA HAD A NEGATIVE TRADE BALANCE IN 1976
OF \$23.2 MILLION AND CURRENT BALANCE OF \$11.1 MILLION. NET
TRANSFERS FROM SAMOANS WORKING OVERSEAS ACCOUNTED FOR OVER
\$10.4 MILLION IN FOREX IN 1976.

4. LOCAL DEMAND FOR COPRA IS NEGLIGIBLE AS ONLY 150 M.T.
ARE CONSUMED ANNUALLY FOR SOAP MANUFACTURING. THE REMAINING
16,000 M.T. IS EXPORTED. THERE IS ALSO NO COCONUT OIL
MARKET IN COUNTRY, EITHER NOW OR IN FORESEEABLE FUTURE,
THEREFORE, ANY EXPANSION OF COCONUT INDUSTRY HAS TO BE
ORIENTED TO EXPORT MARKET. SAMOAN COCONUT OIL HAS FINE QUALITY
THAT TENDS TO INCREASE ITS DEMAND IN WORLD MARKETS. POTENTIAL
OIL PRODUCTION IN SAMOA IS ESTIMATED AT 15,000 M.T., LEASS

THAN 2 PERCENT OF TOTAL WORLD EXPORTS AND ARE CALCULATED TO HAVE NO SIGNIFICANT IMPACT ON WORLD MARKET. EEC WILL BE MAJOR BUYER OF ENTIRE OUTPUT BECAUSE COUNTRY IS AMONG THOSE THAT IS GRANTED DUTY-FREE ENTRY PRIVILEGE INTO EEC MARKET FOR PRODUCTS SUCH AS COCONUT OIL AND EXPELLER PELLETS.

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FOR NAC AGENCIES

5. PROPOSED PROJECT IS DESIGNED TO HANDLE 26,000 M.T. OF COPRA PER ANNUM WITH MAXIMUM DAILY PRODUCTION OF 73 M.T. OF COPRA PROCESSED INTO 46 M.T. OF CRUDE OIL AND 24 M.T. OF COPRA MEAL PELLETS. PROJECT IS EXPECTED TO BE TURNKEY AND INCLUDES CONSULTANTS WHO WILL TRAIN SAMOANS TO TAKE OVER OPERATIONS WHEN PROJECT ASSISTANCE IS TERMINATED. MILL WILL BE LOCATED ON 1.2 HA. LOT INSIDE PLANNED INDUSTRIAL ZONE AT VAITELE, 5 KM. FROM APIA. FULL PRESS PROCESS HAS BEEN DETERMINED AS MOST SUITABLE AND COST EFFECTIVE METHOD FOR WESTERN SAMOA AND TO EXTENT POSSIBLE REHABILITATED CRUSHING MACHINERY WILL BE USED IN AN EFFORT TO SAVE FOREX. PROJECT WILL PROVIDE STORAGE FACILITIES FOR ABOUT TWO AND ONE-HALF MONTHS OF OIL SUPPLY IN ORDER TO ACCOMMODATE CARGO VESSELS THAT FREQUENTLY LACK DEEP TANK SPACES TO CARRY CRUDE COCONUT OIL ON TIMELY BASIS. ENVIRONMENTAL CONSIDERATIONS ARE POSITIVE AS WATER USED FOR BOILER AND COOLANT PURPOSES WILL BE RECYCLED AND WILL NOT BE CONTAMINATED. REASONABLE

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STANDARDS OF POLLUTION CONTROL, HOWEVER, WILL BE APPLIED TO LIMIT EMISSION OF SMOKE AND FLY ASH RESULTING FROM FIRING BOILER WITH COCONUT HUSK AND SHELL. ADEQUATE ELECTRIC POWER IS ASSURED ON SITE BY 1980 WHEN START UP IS SCHEDULED.

6. TOTAL COST OF PROJECT IS ESTIMATED AT \$3,588,000 OF WHICH \$2,250,000 IS IN FOREX THAT BANK HAS BEEN ASKED TO FINANCE AND \$385,000 IN FOREX THAT NEW ZEALAND HAS AGREED TO FINANCE. LOCAL CURRENCY COST ACCOUNTS FOR \$953,000 WHICH THE GOVERNMENT PLANS TO FINANCE. OF TOTAL \$2.7 MILLION IN FOREX COSTS, \$1.7 MILLION IS FOR MILL CONTRACT AND \$300,000 IS FOR SITE DEVELOPMENT CIVIL WORKS. IN ADDITION TO CAPITAL NEEDS, 21 MAN-MONTHS OF FIELD SERVICES AND OFFICE SUPPORT WILL BE REQUIRED FOR BOTH SUPERVISION OF CONSTRUCTION AND FOR OPERATIONS OF THE MILL AND TRAINING SAMOANS TO OPERATE MILL.

7. TURNKEY CONTRACTOR WILL BE ENGAGED FOR PROPOSED PROJECT IN ACCORDANCE WITH BANK'S GUIDELINES ON PROCUREMENT. CONTRACT INCLUDES DETAILED ENGINEERING DESIGN, SUPPLY AND INSTALLATION OF MILL EQUIPMENT, TRAINING OF OPERATING AND MAINTENANCE PERSONNEL AND START-UP AND TEST RUN OF COMPLETED MILL. IN EVENT THAT RECONDITIONED EQUIPMENT IS INCLUDED IN BIDS, BANK HAS ESTABLISHED CRITERIA AND STANDARDS OF OPERATION TO BE MET BY CONTRACTOR.

8. SAMOA COCONUT PRODUCTS LIMITED (SCPL), EXECUTING AGENCY FOR PROJECT, WAS ESTABLISHED IN 1955 UNDER NEW ZEALAND COMPANIES ACT. SCPL WILL START OPERATIONS WITH SHARE CAPITAL OF \$965,000 WITH GOVERNMENT AS MAJORITY STOCK HOLDER AND WSTEC HOLDING REMAINING SHARES. BOARD OF DIRECTORS IS VESTED WITH OPERATING AND POLICY AUTHORITY. MINISTER OF FINANCE IS BOARD OF DIRECTOR CHAIRMAN WITH MEMBERS REPRESENTING DEPT OF ECON DEV, WSTEC AND TWO COPRA PRODUCERS. ADEQUATE

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ARRANGEMENTS HAVE BEEN MADE TO PROVIDE MANAGEMENT AND ACCOUNTING GUIDANCE AND FOR APPROPRIATE USE OF CONSULTANTS. SCPL WILL BE EQUIPPED WITH MODERN, SIMPLE DOUBLE-ENTRY BOOKKEEPING SYSTEM AT PROJECT START UP AS WELL AS WITH INTERNAL AUDIT SYSTEM.

9. FINANCIAL INTERNAL RATE OF RETURN (FIRR) IS ESTIMATED AT 16.3 PERCENT AND ECONOMIC INTERNAL RATE OF RETURN (EIRR) IS CALCULATED AT 17.4 PERCENT. FOREX EARNINGS ARE ESTIMATED

AT \$1.76 MILLION ANNUALLY WHICH REPRESENTS AN INCREASE AS
RESULT OF PROCESSING COPRA INTO COCONUT OIL BY ABOUT 25
PERCENT. OTHER ECONOMIC BENEFITS INCLUDE EMPLOYMENT FOR 64
PERSONS IN INDUSTRIAL SECTOR, MOST OF WHOM ARE SKILLED IN
GENERAL MANAGEMENT, FINANCIAL AND TECHNICAL AREAS.

10. USADB COMMENT: PROPOSED PROJECT IS DESIGNED TO EXPLOIT
ONE OF WESTERN SAMOA'S FEW RESOURCES - ITS COCONUT PRODUCTION
CAPACITY. PROPOSED TURNKEY PROJECT INCLUDES MAJOR CONSIDERA-
TIONS FOR SIMPLICITY OF DESIGN, CONSULTANT SERVICES FOR IN-
STALLATION AND START UP TESTING AND TRAINING SAMOANS TO
OPERATE PLANT. PROPOSED PROJECT IS FINANCIALLY, TECHNICALLY
AND ECONOMICALLY FEASIBLE. SINGLE BUYER PHENOMENA, HOWEVER,
RAISES QUESTIONS REGARDING FARM GATE PRICES FOR COPRA DURING
PERIODS OF DEPRESSED WORLD MARKETS. CLEARLY, LOWER PRICES
WOULD ORDINARILY BE PASSED ON TO FARMERS IN SUCH CASES.
HOWEVER, COPRA BOARD HAS AGREED TO BANK CONDITION THAT
BOARD ESTABLISH STABILIZATION FUND USING EEC CONTRIBUTIONS
THAT HAVE HERETOFORE GONE INTO GOVERNMENT'S GENERAL REVENUES
AND EXCESS PROFITS DURING PERIODS OF HIGH WORLD MARKET PRICES.
USADB SUPPORTS PROJECT AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST AMEMBASSY WELLINGTON COMMENTS FOR NAC AGENCIES,
INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
EDMOND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Current Classification: UNCLASSIFIED
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Sent Date: 02-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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Review Markings:
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